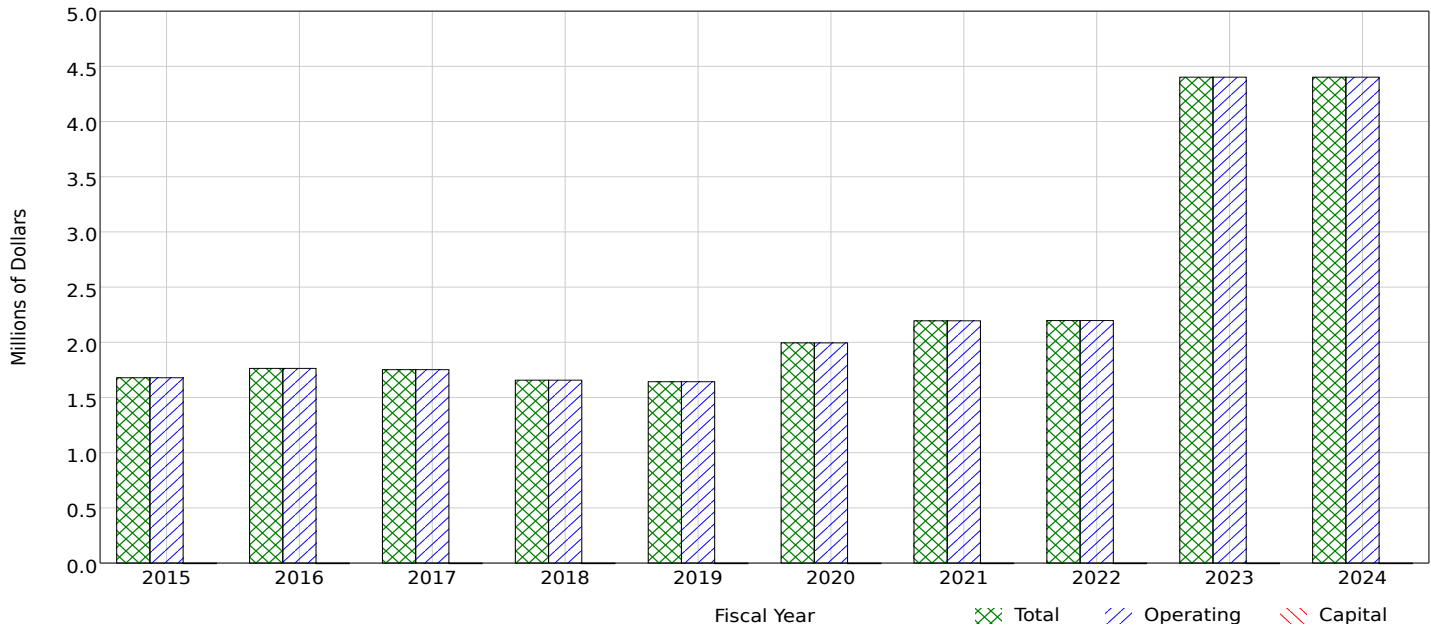


Fund Source Report

1159 DWF Bond Drinking Water Fund Bond Receipts

Year Authorized 2001 Year Repealed Active? Yes Mental Health? No Duplicated? Yes Fund Group Bonds / Debt Service

Operating and Capital Appropriations



Legal Authority

AS 46.03.036-038, AS 37.15.560-.605

Source of Revenue

The fund consists of proceeds from Alaska Drinking Water Fund Bond sales.

Restrictions on Use

Bonds are secured by the Alaska Clean Water Fund. Bond proceeds are deposited to the Drinking Water RLF (1100) to meet match requirements.

Description and History

This budget fund is used to distinguish Alaska Drinking Water Bond receipts and appropriations from Alaska Drinking Water Loan Fund receipts and appropriations.

Alaska established the Alaska Drinking Water fund in 1994 in anticipation of congressional action. Federal funding was approved by Congress in 1996 in response to the reauthorization of the federal Safe Drinking Water Act. The Act contains provisions that offer grants to states to help fund revolving loan programs for drinking water projects. A federal grant of \$26.8 million was offered in 1996 for which the state was required to provide a 20 percent match, or \$5.4 million.

The Environmental Protection Agency (EPA) did not have an assistance program to meet drinking water needs until the 1996 Act. In the past the EPA funded grant and loan programs for sewerage and other pollution abatement projects generally ignored drinking water needs. The federal Surface Water Treatment Rule compelled most Alaskan communities to begin upgrading their water supply infrastructure. The Alaska Drinking Water Revolving Loan program offers low interest loans to the municipalities of the state to assist them in meeting their drinking water capital project needs.

Prior to FY01, the Department of Environmental Conservation (DEC) met the state match requirement by capitalizing the loan fund with general fund appropriations. In FY01, DEC began issuing bonds to take advantage of a provision allowing federal receipts to be used to pay debt service on bonds for eligible projects.

The current funding mechanism is:

1. Alaska issues bonds and deposits the proceeds in the Drinking Water Bond Receipt Fund (1159)
2. Bond proceeds are appropriated to the RLF in order to meet the state match requirement
3. Money from the RLF (1100, a duplicated fund source) is appropriated to debt service to immediately pay off the bonds.

Fund Source Report

The result is that federal funds are used to meet the state match requirement. This scenario reduces total available funding and increases the proportion of federal funds used to make loans. The RLF is in the federal fund group in recognition of the funding mechanism.

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Prior to FY11, the RLF (from which debt service was paid) was in the duplicated fund group. That forced the bonds to be classified as unduplicated appropriations. This classification was atypical; most bonds issued by the state are classified as duplicated appropriations because the payment of debt service typically appears as an annual appropriation and only 1) the bonds or 2) debt service on them can be counted as unduplicated appropriations. With the categorization of the RLF to the unduplicated fund group in FY11, the direct payment of debt service from the RLF (1100) is an unduplicated expenditure and the bonds must be classified as duplicated.

Beginning in FY11, the federal grant requires that 30% of the amount granted be used as a subsidy (through a loan forgiveness process). In addition, up to 31% of the grant can be used for operating purposes--this portion of the grant shows as federal receipts in the DEC operating budget and is not deposited in the RLF. The subsidy shows as a capital appropriation (for DEC projects) from the RLF because the amount to be forgiven is no longer available as fund balance. The entire amount of the federal grant must be shown as a deposit.

See

1100 Drinking Water Fund